

TRIMBLE COUNTY WATER DISTRICT #1
BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2013 and 2012

**TRIMBLE COUNTY WATER DISTRICT #1
BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Trimble County Water District #1
Bedford, Kentucky 40006

Report on the Financial Statements

We have audited the accompanying financial statements of Trimble County Water District #1 as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Trimble County Water District #1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trimble County Water District #1, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 18 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014, on our consideration of the Trimble County Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trimble County Water District #1's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 27, 2014

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF NET POSITION
December 31, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
ASSETS		
Current Assets:		
Cash	\$ 177,309	\$ 139,420
Accounts Receivable (Net)	91,250	85,927
Other Receivables	881	1,145
Inventory	65,610	65,175
Prepaid Expenses	14,991	16,735
Total Current Assets	<u>\$ 350,041</u>	<u>\$ 308,402</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 248,333	\$ 230,238
Interest Receivable	24	39
Capital Assets (Net)	3,948,556	4,091,733
Total Noncurrent Assets	<u>\$ 4,196,913</u>	<u>\$ 4,322,010</u>
Total Assets	<u>\$ 4,546,954</u>	<u>\$ 4,630,412</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 19,728	\$ 7,969
Accrued Compensated Absences	3,447	5,354
Accrued Salaries, Wages & Benefits	6,590	6,051
Accrued Payroll Taxes/Employee Withholding	818	-
Utility Tax Payable	1,745	2,891
Sales Tax Payable	586	617
Tap Fee Deposit Payable	960	4,014
Accrued Interest Payable - Note Payable	5,442	-
Note Payable - Current Portion	19,176	-
Current Liabilities Payable from Restricted Assets:		
Revenue Bonds Payable	16,100	47,070
Accrued Interest Payable - Revenue Bonds Payable	-	112
Total Current Liabilities	<u>\$ 74,592</u>	<u>\$ 74,078</u>
Noncurrent Liabilities:		
Note Payable	\$ 784,824	\$ -
Revenue Bonds Payable	1,161,800	2,015,050
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	35,824	33,220
Total Noncurrent Liabilities	<u>\$ 1,982,448</u>	<u>\$ 2,048,270</u>
Total Liabilities	<u>\$ 2,057,040</u>	<u>\$ 2,122,348</u>
NET POSITION		
Net Investment in Capital Assets	\$ 1,966,656	\$ 2,029,613
Restricted for Capital Projects	4	4,019
Restricted for Debt Service	207,828	188,504
Unrestricted	315,426	285,928
Total Net Position	<u>\$ 2,489,914</u>	<u>\$ 2,508,064</u>

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 682,069	\$ 682,101
Bulk Water Charges	420	707
Sewer Billing Charges	1,200	1,200
Hydrant Rental Charges	1,548	1,008
Total Charges for Services	<u>\$ 685,237</u>	<u>\$ 685,016</u>
Other Charges and Miscellaneous:		
Connect, Reconnect and Disconnect Charges	\$ 20,819	\$ 22,855
Forfeited Discounts	16,031	15,401
Miscellaneous	8,307	9,135
Total Other Charges and Miscellaneous	<u>\$ 45,157</u>	<u>\$ 47,391</u>
Total Operating Revenues	<u>\$ 730,394</u>	<u>\$ 732,407</u>
Operating Expenses:		
Accounting and Collecting Labor	\$ 98,334	\$ 95,542
Chemicals	5,259	3,869
Commissioner Fees	18,000	18,000
Contractual Service - Sampling	4,971	4,528
Dues	1,023	1,023
Employee Benefits	37,320	29,161
Insurance	19,424	20,490
Maintenance of Mains	15,281	21,865
Miscellaneous	2,994	2,554
Office Supplies and Expense	48,751	51,908
Operating Labor	130,886	135,979
Other Interest Expense	21	65
Payroll Taxes	19,090	19,156
Professional Services	18,049	13,310
Regulatory Fees	1,813	1,310
Rental of Equipment	790	-
Retirement Expense	6,252	6,628
Transportation Expense	15,102	18,552
Utilities	48,558	45,751
Depreciation Expense	181,208	184,657
Total Operating Expenses	<u>\$ 673,126</u>	<u>\$ 674,348</u>
Net Operating Income	<u>\$ 57,268</u>	<u>\$ 58,059</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 1,260	\$ 1,245
KIA Debt Reduction	7,421	7,421
Contractor Repayment	-	4,981
Interest Expense	(92,693)	(97,020)
Debt Issuance Costs	(1,912)	-
Total Nonoperating Revenues (Expense)	<u>\$ (85,924)</u>	<u>\$ (83,373)</u>
Net Income Before Contributions	<u>\$ (28,656)</u>	<u>\$ (25,314)</u>
Capital Contributions	<u>10,506</u>	<u>10,841</u>
Net Income	<u>\$ (18,150)</u>	<u>\$ (14,473)</u>
Net Position--Beginning of Year	<u>2,508,064</u>	<u>2,522,537</u>
Net Position--End of Year	<u><u>\$ 2,489,914</u></u>	<u><u>\$ 2,508,064</u></u>

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 726,762	\$ 733,506
Payments to Suppliers	(234,838)	(245,432)
Payments to Employees	(248,588)	(248,998)
Net Cash Provided (Used) by Operating Activities	<u>\$ 243,336</u>	<u>\$ 239,076</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 6,975	\$ 10,974
Purchase of Capital Assets	(37,059)	(35,609)
Contractor Repayment	-	4,981
Principal Paid on Capital Debt	(884,220)	(58,105)
Interest Paid on Capital Debt	(87,363)	(97,108)
Kentucky Infrastructure Authority Debt Reduction	7,421	7,421
Proceeds Build America Bonds Interest Reimbursement	3,531	3,881
Proceeds - Notes Payable	804,000	-
Debt Issuance Costs Paid	(1,912)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (188,627)</u>	<u>\$ (163,565)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (717)	\$ (854)
Interest Received	1,275	1,244
Net Cash Provided (Used) by Investing Activities	<u>\$ 558</u>	<u>\$ 390</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 55,267	\$ 75,901
Balances-Beginning of the Year	274,395	198,494
Balances-End of the Year	<u>\$ 329,662</u>	<u>\$ 274,395</u>

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 177,309	\$ 177,309
Restricted Cash	152,353	152,353
Restricted Time Deposits	95,980	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 425,642</u>	<u>\$ 329,662</u>
	Balances Per December 31, 2012 Statement of Net Position	Balances Per December 31, 2012 Statement of Cash Flows
Cash	\$ 139,420	\$ 139,420
Restricted Cash	134,975	134,975
Restricted Time Deposits	95,263	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 369,658</u>	<u>\$ 274,395</u>

(Continued)

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 57,268	\$ 58,059
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	181,208	184,657
Change in Assets and Liabilities:		
Receivables, Net	(5,323)	(4,083)
Other Receivables	264	1,537
Inventories	(435)	(1,825)
Prepaid Expenses	1,744	305
Accounts and Other Payables	7,733	(2,661)
Accrued Expenses	(1,727)	601
Customer Meter Deposits Payable	<u>2,604</u>	<u>2,486</u>
Net Cash Provided by Operating Activities	<u>\$ 243,336</u>	<u>\$ 239,076</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2013, Trimble County Water District #1 had outstanding obligations for meter tap fees received but not installed of \$960 and accounts payable of \$4,026 associated with capital improvements.

At December 31, 2012, Trimble County Water District #1 had an outstanding obligation for capital asset acquisitions (included in accounts payable) of \$4,014.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Trimble County Water District #1 is a rural water company serving approximately 1,400 customers in Trimble County, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of the above-mentioned county through its Fiscal Court and began operations in March, 1956.

In evaluating how to define Trimble County Water District #1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total net assets plus deferred outflows net of total liabilities and deferred inflows) is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

Debt Issuance Costs: Debt issuance costs are expensed as incurred.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	15-40 years
- Distribution System	33 years
- Wells	33 years
- Machinery & Equipment	5-33 years

Inventory: Inventories are stated at latest cost.

Compensated absences: See Note 9 for the District's policy on vacation and sick pay.

Deferred Outflows and Deferred Inflows

The District adopted GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* "GASB 65"). GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term "deferred" in the financial statement presentation. The implementation of GASB 65 required the District to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof.

The effect of the restatement is discussed in Note 18.

Income taxes: Trimble County Water District #1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues, in the statement of revenues, expenses and changes in fund net position. Tap on fees of \$6,975 and \$6,960 were received by the District for the years ended December 31, 2013 and 2012, respectively. Build America Bond interest reimbursement of \$3,531 and \$3,881 was received by the District during the years ended December 31, 2013 and 2012, respectively.

Net position: In 2012, the District adopted Statement of Governmental Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which required the District to report net position and changes the title of the Statement of Net Assets to the Statement of Net Position (effective for periods beginning after December 15, 2011). Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Trimble County Water District #1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original RECD bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the 1992, 1997, 2000, 2009, and 2010 Bond Issues is as follows:

$$\begin{array}{rcl} & \text{one sixth (1/6) of the next semiannual interest payment} & \\ + & \text{one twelfth (1/12) of the next annual principal payment} & \\ = & \text{monthly transfer} & \end{array}$$

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2013 and 2012.

Upon the issuance of the original 1992 Rural Development bonds, a Depreciation Account was established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits are made into the Bond and Interest Account, monthly transfers are required to be made to the Depreciation Account. The 1992 Bond Resolution required a monthly transfer of \$315 to accumulate to a balance of \$37,800. The 1997 Bond Resolution ratified and confirmed the creation of the 1992 Depreciation Fund. The 2000 Bond Resolution also ratifies and confirms the creation of prior bond funds, and requires an additional \$275 monthly transfer until bonds are paid in full. Monthly transfers were made as required by all bond resolutions. The 2009 Bond Resolution requires an additional \$570 to be transferred to the Depreciation Account until \$68,400 has been accumulated. The 2010 Bond Resolution ratifies and confirms the creation of prior bond funds, but does not require additional transfers. At year-end, the account was fully funded.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Trimble County Water District #1's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2013 and 2012. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the District (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 3 – CASH AND INVESTMENTS (Continued)

December 31, 2013

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 361,339	\$ 354,079	\$ 7,260	\$ -	\$ 329,067
Certificates of Deposit	95,980	95,980	-	-	95,980
Total Deposits	<u>\$ 457,319</u>	<u>\$ 450,059</u>	<u>\$ 7,260</u>	<u>\$ -</u>	<u>\$ 425,047</u>

December 31, 2012

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 339,110	\$ 339,110	\$ -	\$ -	\$ 273,800
Certificates of Deposit	95,263	95,263	-	-	95,263
Total Deposits	<u>\$ 434,373</u>	<u>\$ 434,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 369,063</u>

Reconciliation to Statement of Net Position:

	December 31, 2013	December 31, 2012
Unrestricted Cash	\$ 177,309	\$ 139,420
Restricted Cash, Including Time Deposits	248,333	230,238
Less: Cash on Hand	(595)	(595)
	<u>\$ 425,047</u>	<u>\$ 369,063</u>

NOTE 4 – RESTRICTED ASSETS

Restricted assets consist of the following:

	December 31, 2013	December 31, 2012
Cash, Including Time Deposits	\$ 79,775	\$ 67,769
Bond and Interest Sinking Account	128,029	120,808
Depreciation Account	40,525	37,642
Customer Deposits	4	4,019
Construction Accounts	<u>\$ 248,333</u>	<u>\$ 230,238</u>
Total Cash, Including Time Deposits		
Interest Receivable	<u>\$ 24</u>	<u>\$ 39</u>

NOTE 5 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012, was as follows:

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Land & Land Rights	\$ 23,957	\$ -	\$ -	\$ 23,957
Structures & Improvements	543,325	-	-	543,325
Distribution System	5,028,971	12,124	-	5,041,095
Wells	144,976	-	-	144,976
Machinery & Equipment	1,271,395	-	-	1,271,395
Construction in Process	-	25,907	-	25,907
Totals at Historical Cost	<u>\$ 7,012,624</u>	<u>\$ 38,031</u>	<u>\$ -</u>	<u>\$ 7,050,655</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (143,029)	\$ (14,730)	\$ -	\$ (157,759)
Distribution System	(1,982,907)	(119,096)	-	(2,102,003)
Wells	(69,320)	(3,874)	-	(73,194)
Machinery & Equipment	(725,635)	(43,508)	-	(769,143)
Total Accumulated Depreciation	<u>\$ (2,920,891)</u>	<u>\$ (181,208)</u>	<u>\$ -</u>	<u>\$ (3,102,099)</u>
Capital Assets, Net	<u>\$ 4,091,733</u>	<u>\$ (143,177)</u>	<u>\$ -</u>	<u>\$ 3,948,556</u>

	Balance at January 1, 2012	Additions	Disposals	Balance at December 31, 2012
Land & Land Rights	\$ 23,957	\$ -	\$ -	\$ 23,957
Structures & Improvements	543,325	-	-	543,325
Distribution System	5,022,146	6,825	-	5,028,971
Wells	144,976	-	-	144,976
Machinery & Equipment	1,270,395	9,500	(8,500)	1,271,395
Totals at Historical Cost	<u>\$ 7,004,799</u>	<u>\$ 16,325</u>	<u>\$ (8,500)</u>	<u>\$ 7,012,624</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (128,102)	\$ (14,927)	\$ -	\$ (143,029)
Distribution System	(1,863,698)	(119,209)	-	(1,982,907)
Wells	(65,446)	(3,874)	-	(69,320)
Machinery & Equipment	(687,488)	(46,647)	8,500	(725,635)
Total Accumulated Depreciation	<u>\$ (2,744,734)</u>	<u>\$ (184,657)</u>	<u>\$ 8,500</u>	<u>\$ (2,920,891)</u>
Capital Assets, Net	<u>\$ 4,260,065</u>	<u>\$ (168,332)</u>	<u>\$ -</u>	<u>\$ 4,091,733</u>

Included under the District's Plant Assets at December 31, 2013 and 2012, was \$1,376,227 and \$1,364,482 of fully depreciated assets, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$181,208 and \$184,657 in 2013 and 2012, respectively.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 7 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$7,165 and \$4,514 at December 31, 2013 and 2012, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2013 and 2012, long-term debt payable consisted of the following:

Bonds Payable:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
RECD Revenue Bonds of 1992, original issue amount of \$425,000, secured by water revenues. Interest is charged at the rate of 5.625% per annum. Final maturity is January 1, 2030.	\$ -	\$ 321,320
RECD Revenue Bonds of 1997, original issue amount of \$60,000, secured by water revenues. Interest is charged at the rate of 5.00% per annum. Final maturity is January 1, 2037.	-	49,400
RECD Revenue Bonds of 2000, original issue amount of \$550,000, secured by water revenues. Interest is charged at the rate of 5.00% per annum. Final maturity is July 1, 2040.	-	485,900
RECD Revenue Bonds of 2009, original issue amount of \$931,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is July 1, 2047.	887,400	899,000
RECD Revenue Bonds of 2010 (Build America Bonds – Direct Payment), original issue amount of \$301,000 secured by water revenues. Interest is charged at the rate of 3.75% per annum. Final maturity is July 1, 2048.	290,500	294,000
Kentucky Infrastructure Authority (KIA) Bonds (Dated 8/4/2004), original issue amount of \$175,000, secured by water revenues. Interest is charged at the rate of 2.25% to 5.19% per annum. Final maturity is June 1, 2013.	-	12,500
Total Bonds Payable	\$ 1,177,900	\$ 2,062,120
Current Portion	\$ 16,100	\$ 47,070
Noncurrent Portion	1,161,800	2,015,050
Total Bonds Payable	\$ 1,177,900	\$ 2,062,120

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Note Payable:		
The Farmers Bank of Milton fixed rate mortgage agreement dated October 31, 2013. Original issue amount of \$804,000. Interest is charged at the rate of 4.05% per annum, secured by a real estate mortgage on properties at 34 East Morgan Drive, Bedford, Kentucky and 610 Highway 421N, Bedford, Kentucky. Annual payments of \$51,738. Final maturity is October 31, 2038.	\$ 804,000	\$ -
Current Portion	\$ 19,176	\$ -
Noncurrent Portion	784,824	-
Total Note Payable	<u>\$ 804,000</u>	<u>\$ -</u>
Accrued Compensated Absences:		
Current Accrued Compensated Absences (All Current)	<u>\$ 3,447</u>	<u>\$ 5,354</u>

Revenue Bonds of 1992 - RECD

At original issue, \$425,000 of RECD bonds were outstanding at the interest rate of 5.625% per annum with maturity dates ranging from 1994-2030. On October 31, 2013, all bonds outstanding on this issue (\$321,320) were redeemed. On December 31, 2012, \$321,320 of bonds were outstanding on this issue.

Revenue Bonds of 1997 - RECD

At original issue, \$60,000 of RECD bonds were outstanding at the interest rate of 5.00% per annum with maturity dates ranging from 2001-2037. On October 31, 2013, all bonds outstanding on this issue (\$49,400) were redeemed. On December 31, 2012, \$49,400 of bonds were outstanding on this issue.

Revenue Bonds of 2000 - RECD

At original issue, \$550,000 of RECD bonds were outstanding at the interest rate of 5.00% per annum with maturity dates ranging from 2004-2040. On October 31, 2013, all bonds outstanding on this issue (\$477,600) were redeemed. On December 31, 2012, \$485,900 of bonds were outstanding on this issue.

Revenue Bonds of 2009 – RECD

At original issue, \$931,000 of RECD bonds were outstanding at the interest rate of 4.25% per annum with maturity dates ranging from 2010-2047. On December 31, 2013, \$887,400 of bonds were outstanding on this issue. On December 31, 2012, \$899,000 of bonds were outstanding on this issue.

Revenue Bonds of 2010 – Build America Bonds – RECD U.S. Department of Agriculture

On October 21, 2010, Trimble County Water District #1 issued \$301,000 taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3.75%. The proceeds were used to finance the water main steam crossing replacement project which began in 2010. The first interest payment was due January 1, 2011. The first principal payment was due July 1, 2011. The final payment will be due July 1, 2048. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$94,277 over the life of the issue. On December 31, 2013, \$290,500 of bonds were outstanding on this issue. On December 31, 2012, \$294,000 of bonds were outstanding on this issue.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

Bonds - Kentucky Infrastructure Authority

At original issue, \$369,462 of bonds were outstanding with interest rates that range from 4.60% to 5.75% per annum with maturity dates ranging from 1993-2013. On December 1, 2002, bonds were refinanced to lower interest rates that range from 2.50% to 4.25% per annum with maturity dates ranging through 2013. On August 4, 2004, the bonds were restructured under an amendment agreement with Kentucky Infrastructure Authority. The restructured bond principal was the amount of \$175,000, with interest rates ranging from 2.25% to 5.19% per annum with the same final maturity of June 1, 2013. The issue was fully repaid on June 1, 2013. On December 31, 2012, \$12,500 of bonds were outstanding on this issue.

Note Payable – The Farmers Bank of Milton

On October 31, 2013, Trimble County Water District #1 entered into a note payable agreement with The Farmers Bank of Milton with an interest rate of 4.05% to refinance a portion of its outstanding debt through an advance refunding of the following RECD revenue bond issues outstanding: Series 1992, \$321,320; Series 1997, \$49,400; and Series 2000, \$477,600. The 1992 Series was originally issued at 5.625%. The 1997 Series and 2000 Series were originally issued at 5.00%. The refunded bonds were redeemed on October 31, 2013 at a price equal to the principal amount of the refunded bonds outstanding and accrued interest at that date, by the issuance of the above note and payment from District funds of \$61,582. Debt issuance costs of \$1,912 were incurred.

As a result of the advance refunding, the District reduced its total debt service requirements by \$114,068, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$83,797. Final maturity on the note is October 31, 2038.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2013 and 2012.

December 31, 2013

	Balance at January 1, 2013	Additions	Repayments	Balance at December 31, 2013	Current Portion
Bonds Payable	\$ 2,062,120	\$ -	\$ (884,220)	\$ 1,177,900	\$ 16,100
Note Payable	-	804,000	-	804,000	19,176
Accrued Compensated Absences	5,354	-	(1,907)	3,447	3,447
Total Long-Term Debt	<u>\$ 2,067,474</u>	<u>\$ 804,000</u>	<u>\$ (886,127)</u>	<u>\$ 1,985,347</u>	<u>\$ 38,723</u>

December 31, 2012

	Balance at January 1, 2012	Additions	Repayments	Balance at December 31, 2012	Current Portion
Bonds Payable	\$ 2,117,500	\$ -	\$ (55,380)	\$ 2,062,120	\$ 47,070
Capital Lease Obligation	2,725	-	(2,725)	-	-
Accrued Compensated Absences	6,083	-	(729)	5,354	5,354
Total Long-Term Debt	<u>\$ 2,126,308</u>	<u>\$ -</u>	<u>\$ (58,834)</u>	<u>\$ 2,067,474</u>	<u>\$ 52,424</u>

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2013, are as follows:

Due	Bonds	Bond Interest	Federal Credit Interest Payment	Note Payable	Note Payable Interest	Total Principal & Interest
2014	\$ 16,100	\$ 44,538	\$ 3,813	\$ 19,176	\$ 32,562	\$ 116,189
2015	16,600	43,917	3,760	19,953	31,785	116,015
2016	17,200	43,270	3,708	20,761	30,977	115,916
2017	18,200	42,602	3,655	21,601	30,136	116,194
2018	18,800	41,897	3,596	22,476	29,262	116,031
2019-2023	106,600	197,904	17,050	126,796	131,894	580,244
2024-2028	130,900	175,384	15,246	154,638	104,052	580,220
2029-2033	161,600	147,629	13,014	188,594	70,096	580,933
2034-2038	198,900	113,475	10,271	230,005	28,685	581,336
2039-2043	244,000	71,416	6,891	-	-	322,307
2044-2048	249,000	20,770	2,766	-	-	272,536
	<u>\$ 1,177,900</u>	<u>\$ 942,802</u>	<u>\$ 83,770</u>	<u>\$ 804,000</u>	<u>\$ 489,449</u>	<u>\$ 3,497,921</u>

The annual requirements for all long-term debt outstanding at December 31, 2012, are as follows:

Due	Bonds	Bond Interest	Federal Credit Interest Payment	Total Principal & Interest
2013	\$ 47,070	\$ 90,357	\$ 3,859	\$ 141,286
2014	36,720	88,037	3,813	128,570
2015	38,610	86,295	3,760	128,665
2016	40,570	84,450	3,708	128,728
2017	42,990	82,510	3,655	129,155
2018-2022	252,010	379,326	3,596	634,932
2023-2027	328,910	311,212	17,050	657,172
2028-2032	324,340	229,891	15,246	569,477
2033-2037	325,100	163,688	13,014	501,802
2038-2042	323,800	89,653	10,271	423,724
2043-2047	288,500	30,931	6,891	326,322
2048	13,500	327	2,766	16,593
	<u>\$ 2,062,120</u>	<u>\$ 1,636,677</u>	<u>\$ 87,629</u>	<u>\$ 3,786,426</u>

NOTE 9 – COMPENSATED ABSENCES

Vacation and sick pay are considered an expense in the year incurred. Upon termination, the employee is compensated for any accrued but unused vacation. At December 31, 2013, a liability for accrued vacation was recorded in the amount of \$3,447. At December 31, 2012, a liability for accrued vacation was recorded in the amount of \$5,354. Sick days are accrued at the rate of one day per month. At December 31, 2013 and 2012 the District had an unrecorded sick pay liability to its employees of \$5,951 and \$10,199, respectively. The estimated liabilities include required salary related payments.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 10 – FUND EQUITY- RESTRICTED NET ASSETS

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Restricted for Capital Projects:		
Monies Restricted for Future Projects		
Cash	\$ 4	\$ 4,019
Total Restricted for Capital Projects	<u>\$ 4</u>	<u>\$ 4,019</u>
Restricted for Debt Service:		
RECD Revenue Bonds of 1992, 1997, 2000, 2009 & 2010		
Kentucky Infrastructure Authority Bonds		
Cash	\$ 207,804	\$ 188,577
Add: Accrued Interest Receivable	24	39
Less: Accrued Interest Payable	-	(112)
Total Restricted for Debt Service	<u>\$ 207,828</u>	<u>\$ 188,504</u>

NOTE 11 – BAD DEBT EXPENSE

At December 31, 2013 and 2012, water revenue charges have been netted with an estimated bad debt expense of \$2,651 and \$3,273, respectively.

NOTE 12 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2013 and 2012 was \$92,714 and \$97,085, respectively. No interest expense was capitalized in 2013 or 2012.

NOTE 13 – WHOLESALE WATER RATES

Trimble County Water District #1 supplies water for resale to the West Carroll Water District. The wholesale rate charged to West Carroll Water District is as follows: \$205.50 minimum for the first 50,000 gallons plus an additional \$3.60 per 1,000 gallons over the first 50,000 gallons. These rates became effective with the January, 2009 billing. There is no minimum purchase amount.

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of commercial insurance.

NOTE 15 – PENSION PLAN

In December, 2008, the District adopted a 401(K) Deferred Compensation Plan through Kentucky Public Employees' Deferred Compensation Authority. Each plan year, the District agrees to provide contributions on behalf of each participant based on a discretionary percentage of the participant's compensation. For 2013 and 2012, the District contributed 3% of eligible participants' compensation or \$6,252 and \$6,628, respectively. The plan members contributed a total of \$5,469 and \$6,293 for 2013 and 2012, respectively.

NOTE 16 – ECONOMIC DEPENDENCY

Trimble County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 5.27% and 5.50% of total charges for services was received from Louisville Gas & Electric Company for the years ended December 31, 2013 and 2012, respectively.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 17 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

KINGS RIDGE WATER TOWER LAWSUIT

In 2008, the District filed a lawsuit in the Trimble Circuit Court against Thomas Brand Siding Company as a result of its default in a painting contract for the Kings Ridge Water Tower. The case was settled in March, 2010. The balance of the claim, \$16,481 (\$18,463 claim less \$1,982 retainage held by the District), was to be repaid in monthly installments of \$500 each until the judgment was paid in full. Due to the contingent nature of the receivable, revenue was recorded when received. \$4,981 was repaid in 2012 and is reported as nonoperating revenue on the statement of revenues, expenses and changes in fund net position. The claim was paid in full at December 31, 2012.

A claim was made by Sisler-Maggard Engineering, PLLC for unpaid fees in the amount of approximately \$54,000. The District contested the validity of the claim. In January, 2014, a settlement in mediation was reached between the parties. The District will pay \$5,000 to the engineering firm. This payment has been included in professional fees on the statement of revenue, expenses and changes in net position, and accounts payable in the statement of net position for the year ended December 31, 2013.

The District is in the process of constructing a line improvement/extension on Lehue Road. The approximate anticipated cost of the project is \$47,000. Materials purchased for the project are included in construction in process at year end.

NOTE 18 – FINANCIAL STATEMENT RESTATEMENT

The District adopted Statement of Governmental Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, which amends the financial statement classification of certain items to now be included as deferred inflows and outflows categories on the Statement of Net Position. Under GASBS No. 65, debt issuance costs are no longer to be reported in the Statement of Net Position because the GASB has determined that they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended December 31, 2012:

Statement of Net Position:

Total Net Position as Originally Presented	\$ 2,518,047
Less: Net Unamortized Bond Issuance Costs	(9,720)
Net Unamortized Deferred Loss - Early Debt Retirement	(263)
	<hr/>
Total Net Position as Restated	\$ 2,508,064

The Components of Net Position at December 31, 2012 after restatement are as follows:

Net Investment in Capital Assets	\$ 2,029,613
Restricted for Capital Projects	4,019
Restricted for Debt Service	188,504
Unrestricted	285,928
	<hr/>
Total Net Position	\$ 2,508,064

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 18 – FINANCIAL STATEMENT RESTATEMENT (Continued)

Statement of Revenues, Expenses, and Changes in Fund Net Position:

Changes in Net Position as Originally Reported	\$ (16,268)
Add Back:	
Amortization Expense of Bond Issuance Costs and Deferred Loss - Early Debt Retirement	<u>1,795</u>
Changes in Net Position as Restated	\$ (14,473)
Net Position, January 1, 2012 (as Restated)	<u>2,522,537</u>
Net Position, December 31, 2012 (as Restated)	<u><u>\$ 2,508,064</u></u>

The effect of the restatement on the Net Position at December 31, 2011, is as follows:

Net Position as Originally Reported	\$ 2,534,315
Less: Net Unamortized Bond Issuance Costs	(11,244)
Net Unamortized Deferred Loss - Early Debt Retirement	<u>(534)</u>
Net Position as Restated, December 31, 2011	<u><u>\$ 2,522,537</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Commissioners of the
Trimble County Water District #1
Bedford, KY 40006

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Trimble County Water District #1 as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Trimble County Water District #1's basic financial statements, and have issued our report thereon dated March 27, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Trimble County Water District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trimble County Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Trimble County Water District #1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2013-001 and 2013-002).

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Trimble County Water District #1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

TRIMBLE COUNTY WATER DISTRICT #1'S RESPONSE TO FINDINGS

Trimble County Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Trimble County Water District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 27, 2014

**TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2013**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Trimble County Water District #1.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Items 2013-001 and 2013-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Trimble County Water District #1, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2013-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as Item 12-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

RESPONSE:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel.

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
December 31, 2013

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

**2013-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as 12-2.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE

To the Commissioners of the
Trimble County Water District #1
Bedford, Kentucky 40006

RURAL DEVELOPMENT COMPLIANCE LETTER

We have audited the financial statements of Trimble County Water District #1 as of and for the year ended December 31, 2013, and have issued our report thereon dated March 27, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Trimble County Water District #1 for the year ended December 31, 2013, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trimble County Water District #1's internal control over financial reporting. After obtaining an understanding of the control environment and the flow of transactions through the accounting system, we did not rely on the system of internal accounting controls because of the size of the entity. Our review identified material weaknesses in the internal accounting control system as disclosed in the schedule of Findings and Responses.

The following information is presented as supplemental information in accordance with USDA Rural Development's requirements.

1. The accounting records of Trimble County Water District #1 appear adequate.
2. Control over fixed assets is adequate. A supply inventory has been taken.
3. USDA Rural Development loan agreements for the 1992, 1997, 2000, 2009 and 2010 issues require transfers to be made monthly to the Bond and Interest Sinking Account and Depreciation Account. The 1992, 1997 and 2000 issues were refunded October 31, 2013. All accounts are properly funded as of December 31, 2013.
4. The general accounting records were kept on forms and in the manner suggested by Rural Development.
5. All bank accounts were confirmed directly by the depository and reconciled to the cash balances as shown in these financial statements. The accounts are insured up to \$450,059 by the Federal Deposit Insurance Corporation. Securities with a market value of \$125,344 have been pledged to the Trimble County Water District #1. All of the District's deposits were insured or collateralized at December 31, 2013.

6. Insurance coverage may be summarized as follows:

<u>General and Public Officials Liability</u>	\$	3,000,000	
<u>Vehicles & Equipment</u>	\$	1,000,000	Liability/Each Accident
<u>Property, Buildings, Tanks & Equipment</u>	\$	3,464,866	
<u>Surety Bond</u>	\$	200,000	
<u>Fidelity Bond</u>			
Officers	\$	25,000	
<u>Employee Dishonesty Bond</u>	\$	100,000	
<u>Workmen's Compensation</u>			
All employees			Statutory

7. Trimble County Water District #1 is a governmental unit and thus exempt from income taxes.

8. Accounts receivable as of December 31, 2013, may be aged as follows.

<u>Total Accounts Receivable</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60</u>
\$ 98,415	\$ 90,883	\$ 367	\$ 7,165

<u>Total Accounts Receivable</u>	<u>Allowance for Uncollectibles</u>	<u>Net Accounts Receivable</u>
\$ 98,415	\$ 7,165	\$ 91,250

Respectfully submitted,

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 27, 2014